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DO NOT THROW AWAY
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COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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ALAN T. SASAKI
AUDITOR-CONTROLLER

July 2, 1997

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COUNTY OF L.A.
INTERNAL SERVICES DEPT.
EXECUTIVE OFFICE

TO: All Department and District Heads

FROM: Alan Sasaki
Auditor-Controller

David E. Janssen
Chief Administrative Officer

SUBJECT: **ADMINISTRATIVE POLICY ON TAKEOVERS OF INTERNALLY PROVIDED SERVICES**

The Board of Supervisor's approved an October 11, 1996, report by a task force convened by the Auditor-Controller to study countywide billing policies and other related issues, such as takeovers of internally provided services. Based on this report, and in order to ensure that the County's best interests are protected, we are implementing the following Administrative Policy on Takeovers effective immediately:

> All proposed takeovers beginning with those to take effect in FY 1998-99 must be submitted to the Chief Administrative Office during the annual budget request submission process. The Chief Administrative Office will analyze issues such as the potential loss of centralized coordination and technical expertise, the effect on the remaining customers of the provider, and main mission compatibility. The Auditor-Controller will perform a cost analysis using an avoidable cost format similar to Proposition A contracts that includes an evaluation of both departmental and countywide financial impact.
>
> If the proposed takeover is determined to be cost effective, the analysis will be expanded to evaluate the potential benefit of other requesters taking over the service. If the proposed takeover is approved, the Chief Administrative Office will work with the involved departments to develop a transition method to make an orderly reduction in previously billed unavoidable indirect costs. This transition method may include transferring some of the remaining provider indirect costs to the department taking over the service, reduction of provider indirect costs through cost cutting or other efficiencies to make the provider more competitive, or a combination of these methods.

Background/Definitions

A takeover occurs when a department (requester) decides to perform for itself a service previously performed by another department (provider). The requester may elect to perform the work itself or contract with another provider. The primary reasons for the requester to take over the service are to improve service level or save money by reducing or eliminating the indirect costs (overhead) charged by the provider department. If the indirect costs of the provider department are not reduced or transferred along with the responsibility for providing the service, costs to the provider's remaining customers may increase. Also, overall costs to the County may increase if a contractor is hired at a cost that exceeds the provider department's avoidable costs.

Takeover decisions motivated by generation of requester cost savings may not adequately consider countywide operational issues. For example, a requester may desire to withdraw from the Telephone Utilities Budget to assume management of its phone service and achieve savings due to avoidance of indirect costs. However, billings from the Telephone Utilities Budget include an unavoidable indirect cost recovery component that finances services that benefit all departments, such as public referral and 24-hour emergency services. Rates charged to the remaining requester departments would likely increase. The County would likely lose some of its leverage at negotiating service discounts due to the splintering of telephone services. Issues such as these as well as the loss of centralized coordination and technical expertise, and operational compatibility (core competency) need to be considered from a countywide perspective. The administrative policy on takeovers set forth above ensures that such considerations will be fully examined prior to approval of any additional takeovers.

Thank you for your cooperation. If you have any questions regarding this policy, please contact Tyler McCauley, Assistant Auditor-Controller at (213) 974-8303.

AS:DEJ

c: Each Supervisor